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U.S. Internal Revenue
Service

Income tax primer for
farmers (rev.)

Washington

1921

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TREASURY DEPARTMENT
UNITED STATES INTERNAL REVENUE SERVICE

INCOME TAX PRIMER

FOR

FARMERS

Box

(REVISED)

PREPARED BY THE BUREAU OF INTERNAL REVENUE
FOR THE INFORMATION AND ASSISTANCE
OF TAXPAYERS

JANUARY 1, 1921



WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

6813000 1924

INCOME TAX PRIMER FOR FARMERS.

RETURNS.

1. Who is a farmer?

The term "farmer" as used in this primer embraces persons operating stock, dairy, poultry, fruit, or truck farms, plantations, ranches, or any land used for fruit raising or agricultural purposes.

2. I am a farmer. Am I required to make a personal income tax return for 1920?

Yes; if your total net income for the taxable year was \$1,000 or over, unless you were married and living with your husband or wife on the last day of your taxable year, in which case you should file a return in the event your total net income equaled or exceeded \$2,000.

3. To what personal exemptions am I entitled?

If on the last day of your taxable year you were a single person you are entitled to an exemption of \$1,000; if you were married and living with your wife or husband, or were the head of a family, you are entitled to an exemption of \$2,000. You are also entitled to a further exemption, whether single or married or the head of a family, of \$200 for each person (other than husband or wife) dependent upon and receiving his chief support from you, if such dependent person is under 18 years of age, or, regardless of age, if incapable of self-support because mentally or physically defective.

4. Wife dies July 1, 1920, leaving no children. Is the man entitled to a \$2,000 or \$1,500 deduction as head of a family?

He is entitled to \$1,000 personal exemption as a single man. The joint personal exemption may not be claimed on account of husband or wife who dies during the taxable year. The status of the taxpayer on the last day of his taxable year determines his right to an additional exemption and to a credit for dependents. If then he is the head of a family or is married and living with his wife, the personal exemption of \$2,000 may be taken. If then he is the chief support of a dependent who is under 18 years of age, or incapable of self-support because mentally or physically defective, the credit of \$200 may be taken. Otherwise he is only entitled to a personal exemption of \$1,000.

5. The child dies July 1, 1920. Is the head of a family entitled to a \$200 or \$100 deduction on that child?

The head of the family is entitled to no credit for this child in his income tax return. See answer to question No. 4.

6. On October 10, 1920, I married a widow with one dependent child 3 years old, both of whom I have supported since marriage. To what exemption am I entitled?

To an exemption of \$2,000 for yourself and wife and an additional amount of \$200 for the child.

7. A widower having a child under 18 years of age pays board in a private family for himself and child. Is he entitled to a personal exemption of \$2,000, as the head of a family with one minor child? If not, what exemption is he entitled to? Explain what is the head of a family.

(a) A widower with a child under 18 years of age, paying board in a private family for himself and child, is entitled to the exemption of \$2,000 as the head of a family and also to the additional exemption of \$200 for such dependent child.

(b) A "head of a family" is a person who actually supports and maintains in one household one or more individuals who are closely connected with him by blood relationship, relationship by marriage, or by adoption, and whose right to exercise family control and provide for these dependent individuals is based upon some moral or legal obligation.

8. A child under 18 years of age has an independent income; should this child make an individual report or must the income be included in the parent's return?

This case is governed by section 223 of the Revenue Act of 1918, and Article 403 of Regulations 45. The rule is that a minor is required to render a return of income if he has a net income of his own of \$1,000 or over for the taxable year. If the minor has been emancipated by his parent his earnings are his own income and such earnings, regardless of amount, are not required to be included in the return of the parent. In case the aggregate net income of the minor from any property he possesses and from any funds held in trust for him by a trustee or guardian and from his earnings in case he has been emancipated, is at least \$1,000, a return as in the case of any other individual must be made by him, or by his guardian, or some other person charged with the care of his person or property for him. An exception is made in case of a minor having earnings who has not been emancipated by his parent, and the parent appropriates or may appropriate his earnings. In such a case the earnings are income of the parent and not of the minor. It should be borne in mind, however, that in the absence of proof to the contrary, a parent will be assumed not to have emancipated his minor child and must include in his return any earnings of the minor.

9. What is meant by the taxable year 1920?

The calendar year 1920 or any fiscal year ending during the calendar year 1920.

10. What does the term fiscal year mean?

An accounting period of 12 months ending on the last day of any month other than December.

11. Upon what period of time shall my 1920 income tax return be based?

Upon the calendar year 1920 unless you have an established accounting period which is a fiscal year as defined in the answer to question 10.

12. My principal crop is tobacco. I keep books of account which accurately show my true gains and profits, take annual inventories, and close my books on March 31. My tax return for 1919 covered the calendar year 1919. Upon what period shall I make a return for 1920?

Since your annual accounting period is the fiscal year ending March 31, you should make a return showing your true net income from April 1, 1919 to March 31, 1920. As this return should have been filed not later than June 15, 1920, you should attach an affidavit to it stating the reasons why it was not filed on time. If you were keeping your books on this basis during 1918 and 1919, an amended return covering the period from April 1, 1918 to March 31, 1919, must also be filed, accompanied by an affidavit. Your returns in the future should then be filed for your fiscal year, and the one covering the period from April 1, 1920 to March 31, 1921 must be filed not later than June 15, 1921. Permission to change your accounting period for income tax purposes may be obtained through the collector for your district, if such request is made (a) not later than 30 days prior to the due date of your return on the present basis on which your accounts are kept, and (b) not later than 30 days prior to the due date of your separate return for the period between the close of your existing taxable year and the date designated as the close of the proposed taxable year.

13. Can a return be made for a period of more than 12 months?

No.

14. Where should my personal return for the year 1920 be filed?

With the collector of internal revenue for the district in which you have your legal residence or principal place of business. If your legal residence is located in one collection district and your principal place of business in another, it is optional with which collector your return shall be filed; but for administrative reasons the Commissioner of Internal Revenue desires that it be filed with the collector of the district in which your legal residence is located.

15. When should my return for calendar year 1920 be filed with a collector of internal revenue?

On any day after December 31, 1920, but not later than March 15, 1921.

16. Will failure to file my return within the time prescribed by law render me liable to any penalty?

Yes. You would be liable to a penalty of 25 per cent of the amount of the tax due from you, unless your failure to file the return on time is satisfactorily shown to be due to a reasonable cause. You would also be liable to an additional penalty of not to exceed \$1,000, unless you refused to make a return when called upon to do so, in which case you would be liable to a penalty of not to exceed \$10,000, and imprisonment for not more than one year, or both, together with the costs of prosecution.

17. May an extension of time beyond March 15, 1921, be obtained for the filing of my 1920 return?

Yes. If, on account of illness or absence from home you are unable to file your return within the time prescribed by law, you may obtain an extension of 30 days if a request therefor is made to the collector of your district within the period covered by the extension asked for. In this request you must state the reason why the return can not be filed within the time prescribed by law.

18. Would a personal return made by an agent for and in my behalf be accepted?

If, by reason of illness, absence, or nonresidence a taxpayer is unable personally to make his return he may appoint an agent to act for him and the return executed by the agent will be accepted if he makes affidavit that he has sufficient knowledge to make a complete and accurate return for his principal. Such agent assumes responsibility for making the return properly, and incurs liability to the specific penalties provided for erroneous, false, or fraudulent returns.

19. My net income for 1920 was \$3,000. What form should I use in making my individual income tax return for that year?

You should use Form 1040-A (Revised), the form prescribed for individuals whose net incomes for the taxable year were not more than \$5,000. An individual whose net income for the taxable year was more than \$5,000 should use Form 1040 (Revised).

20. Where can I get a blank form upon which to make my return?

From the collector of internal revenue for your district. The collector will endeavor to have such forms sent to you, but failure to receive one will not excuse you from making a return. If you do not receive one, it is your duty to request the collector to furnish you with a blank form.

RATE OF TAX.

21. What personal income taxes are imposed upon income received during the calendar year 1920?

The normal income tax on the income of every individual citizen or resident of the United States is at the rate of 4 per cent upon the first \$4,000 of the net income in excess of credits allowed (see question 111), and 8 per cent upon the excess over that amount. A person receiving a net income in excess of \$5,000 is liable to a surtax of 1 per cent upon income from \$5,000 to \$6,000; 2 per cent upon income from \$6,000 to \$8,000; 3 per cent upon income from \$8,000 to \$10,000, etc. Assuming that a man's net income for 1920 was \$9,000 and that he was entitled to \$2,800 credits, his tax would be computed as follows:

| NORMAL TAX. | |
|--|-------|
| Income from \$2,800 to \$6,800, at 4 per cent..... | \$160 |
| Income from \$6,800 to \$9,000, at 8 per cent..... | 176 |
| SURTAX. | |
| Income from \$5,000 to \$6,000, at 1 per cent..... | 10 |
| Income from \$6,000 to \$8,000, at 2 per cent..... | 40 |
| Income from \$8,000 to \$9,000, at 3 per cent..... | 30 |
| Total tax..... | 416 |

EXEMPT ITEMS.

22. What income of an individual is exempt from income tax?

(a) The proceeds of life insurance policies paid upon the death of the insured to individual beneficiaries or to the estate of the insured;

(b) The amount received by the insured as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract;

(c) The value of the property acquired by gift, bequest, devise, or descent (but the income from such property shall be included in gross income);

(d) Interest upon (1) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia; or (2) securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916; or (3) the obligations of the United States or its possessions, except as follows: In the case of obligations of the United States issued after September 1, 1917, the interest shall be exempt only if and to the extent provided in the respective acts authorizing the issue thereof as amended and supplemented, and shall be excluded from gross income only if and to the extent it is wholly exempt from taxation to the taxpayer;

(e) Amounts received, through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received, whether by suit or agreement on account of such injuries or sickness;

(f) So much of the amount received during the present war by a person in the military or naval forces of the United States as salary or compensation in any form from the United States for active services in such forces, as does not exceed \$3,500.

23. Am I required to make any return of income wholly exempt from income tax?

The law requires that every person owning any of the obligations, securities, or bonds enumerated in clauses (1), (2), and (3) of paragraph (d) above shall submit a statement showing the number and amount of such obligations, securities, and bonds owned by him and the income received therefrom. There is a place on the return form for showing such information.

NET INCOME.

24. What is meant by the term "net income"?

Net income means your total gross income, not including income exempt from the tax by law, less the general deductions allowed by law.

25. What is the proper basis for computing net income of farmers?

Approved standard methods of accounting will ordinarily be regarded as clearly reflecting income. The statute provides that the net income shall be computed in accordance with the

method of accounting regularly employed in keeping the books of the taxpayer, but if the method employed does not clearly reflect the income, the computation shall be made upon such basis and in such manner as in the opinion of the Commissioner does clearly reflect the income.

26. Heretofore I have made my income tax returns upon the cash receipts and disbursements basis. May I render my return for 1920 upon the accrual basis with inventories?

Farmers may change the basis of their returns from that of receipts and disbursements to that of an inventory basis, which necessitates the use of opening and closing inventories for the year in which the change is made, provided there is submitted with the return for the current taxable year an adjustment sheet for 1917 and each year thereafter (prior to the year in which the change is made) based on the inventory method, upon the amount of which adjustments the tax shall be assessed and paid (if any be due) at the rate of tax in effect for each respective year. Where it is impossible to render complete inventories from the beginning of the taxable year 1917, the department will accept estimates which in its opinion substantially reflect the income, on the inventory basis, for the year 1917 and thereafter, but inventories must not include real estate, buildings, permanent improvements, or any other assets subject to depreciation.

Because of the difficulty of ascertaining actual cost of live stock and other farm products, farmers may value their inventories according to the farm-price method, which contemplates valuation of inventories at market, less cost of marketing.

GROSS INCOME.

27. What is included in "gross income"?

Gross income includes gains, profits, and income derived from every source whatever, unless wholly exempt from income tax.

28. What items must I report in my return in figuring my income-tax liability?

All gains or profits, and income derived from the sale or exchange of property of any description, including farm products and live stock. The gain or profit derived from sale of animals purchased and used solely for draft or work purposes, or solely for breeding purposes, should be reported as income. There must also be included in gross income amounts received for board of persons, board and pasturage of animals, labor of men and teams, and hire or use of machinery.

29. I raised a large crop of wheat in 1920, but did not sell it until after the close of the year. Should I include the proceeds from the sale of this wheat in my return for 1920?

No; unless you keep your books upon an accrual basis, in which case the wheat would be reported in your closing inventory for 1920.

30. I have always kept my accounts upon the basis of cash receipts and disbursements. In 1920 I sold wheat which was raised in 1917, 1918, and 1919. May I deduct the expense of raising

this wheat in computing my profits, or must I include in gross income the total amount received for my wheat?

Where the cost of stock or farm products purchased in previous years for resale or the expense of raising stock or products on the farm has been claimed as a deduction or taken into consideration in ascertaining the farmer's liability to income tax for some year prior to 1920, the entire proceeds of the sale are to be returned as income for the year in which the sale was made, for the reason that the farmer having once received the benefit of the deduction is not again entitled to it. If, however, such cost or expense has not been claimed as a deduction or has not been taken into consideration in ascertaining the farmer's liability to income tax for a previous year, by reason of the income of the farmer for the previous year not being of sufficient amount to permit of the deduction of such expense or of its being so taken into consideration, the amount of such cost or expense may be deducted from the selling price of the stock or farm products and the difference only returned as gross income.

31. I rent a farm on shares. When is my share of the crops and stock to be taken into consideration in making up my return?

In the year in which they are sold or converted into cash or the equivalent, unless your books are kept on an accrual basis and inventories are taken.

32. How am I to determine the amount of gain or profit derived from sale of property which is returnable for income-tax purposes?

If you acquired the property sold prior to March 1, 1913, you should take its fair market price or value of that date, add thereto all amounts subsequently expended in making improvements, deduct therefrom depreciation sustained between March 1, 1913, and date of sale, and the difference between the result obtained and the selling price is the amount to be reported under gross income.

If you purchased the property on or after March 1, 1913, the difference between its cost plus all amounts subsequently expended for permanent improvements less depreciation sustained for years prior to 1920 and its selling price is to be returned.

If the property came to you on or after March 1, 1913, as an inheritance, the difference between the appraisal value placed upon it at the date of the death of the testator plus all amounts subsequently expended for permanent improvements less depreciation as above indicated and its selling price is to be returned.

33. How is the value as of March 1, 1913, of property sold in 1920 to be determined?

No method of determining this value can be stated which will adequately meet all circumstances. What that value was is a question of fact to be established by any appropriate evidence available in the particular case.

34. Please advise what report should be made on a farm sale made by contract in 1920 on which \$1,000 was paid and the balance of purchase money to be paid March 1, 1921; after January 1,

1921, a mutual agreement was entered into whereby the contract was canceled by the return of the \$1,000 and a further consideration of \$1,000 paid by the seller for the cancellation of the contract. Would this be considered a repurchase of the farm, or would it be considered a loss of \$1,000 paid for cancellation of the contract in the 1921 income?

(a) Assuming that the original payment of \$1,000 was made by the purchaser merely as a pledge for good faith in performance of the contract, the transaction is considered incomplete and as not affecting income during 1920.

(b) The \$1,000 which the seller paid in 1921 to be relieved from the terms of the original contract is a capital investment and should be treated as additional cost of the farm.

35. A man in 1920 entered into a contract for the sale of his farm, the contract price being \$40,000. His profit was \$10,000. He received \$800 down on contract, and was to receive \$10,000 on March 1, 1921, \$10,000 on March 1, 1922, and \$9,200 on March 1, 1923, the deferred payments being secured by a mortgage on the land; deed and possession were to be given on March 1, 1921. How should the profit be returned for income-tax purposes?

This transaction is a contract for sale in the future as distinguished from a present sale, as only a small cash payment was made and the deed and possession were not to be delivered until March 1, 1921. The \$800 is held to be a return of capital, no part of which is taxable income for 1920. Inasmuch as the sale will be consummated on March 1, 1921, the entire profit from the transaction should be reported as income for the year 1921. Taxable income will be received to the extent that the contract price of \$40,000, plus the amount of any depreciation sustained on the buildings upon the land (exclusive of the taxpayer's residence), since March 1, 1913, exceeds the cost of the farm (or its fair market value as of March 1, 1913, if it was acquired prior to that date), plus the cost of any permanent improvements made by the seller since March 1, 1913, and not claimed by him in any return of income.

36. An individual buys a section of Canada land under contract during the prewar period. During 1920 he forfeited one-half section to the Canadian Government suffering loss of all payments which had been made on the land upon returning the land. After this the party sells out under contract, his right to the other half section, receiving a cash payment on the land. Would the amount for which the half section of land sold under contract be a profit?

The individual who purchased a section of Canadian land during the prewar period and during 1920 forfeited one-half section to the Canadian Government, thereby suffering loss of all payments which had been made on this half section may deduct as a loss for the year in which the property was forfeited, the cost or fair value as of March 1, 1913, if acquired prior thereto. Upon the sale by him of the other half section he should report as income the excess of the selling price over the cost to him of such half section or its fair market value as of March 1, 1913, if acquired prior thereto.

37. A contract to sell a farm was made in 1920, payment of \$1,000 down, balance to be paid in 1921, upon possession and delivery of deed. What part of cash payment goes in 1920 return?

None. Profit on the sale should be returned as income for 1921. However, if the sale is not completed and the \$1,000 is forfeited, the seller should return that as income.

38. In 1914, A bought 160 acres of land at \$175 an acre. Recently B bought 160 acres for \$375 an acre with the idea of putting the same on the market at once. There are no buildings on either parcel of land. B finds upon investigation that if he had A's 160 acres of land he could sell the same. Accordingly he takes up the matter with A. It so happens that the land owned by B is in a territory where A had formerly lived and for that reason he accepts the proposition of B's "trading even up." In the contract which is made by A and B it is specified that they are trading the land on a basis of \$425 an acre, which is assumed to be its actual market value. In the whole transaction A does not receive a cent in cash and in fact will be at some expense because of having to move. Should A have to pay an income tax on this transaction?

Yes. The difference between the cost to A of the land originally held by him (\$175 per acre) and the value of the land received in exchange (\$425 per acre) represents profit to A and is subject to income tax.

The difference between the cost to B of the land originally held by him (\$375 per acre) and the value of the land received in exchange (\$425 per acre) represents profit to B and is subject to income tax.

39. On August 1, 1920, A sells his farm to B on contract, complete payment to be made, deed and possession to be delivered on March 1, 1921. On December 1, 1920, A buys his own farm back giving B a profit of \$5,000 and destroys the original contract. No deed is ever executed. Is A liable to an income tax on the profit he had made in the original deal? If not, then is the \$5,000 he paid to get the contract released loss that can be deducted in computing his income for the year?

A made no profit on the original transaction. The contract was clearly executory at that time, since its completion was contingent upon the conveyance of title and deliverance of property on March 1, 1921. The \$5,000 payment by A, over and above the consideration named in the first contract, was, in fact, an amount paid by A to be relieved from the terms of the contract, and is additional cost of the property and should be treated as a capital investment.

40. A sells his farm to B in August, 1920, for \$10,000, receiving a cash payment of \$2,500, balance to be paid March 1, 1921, when deed is to be delivered. Is any part of the tax on profits in this deal to be included in A's return for 1920? Or is it all to be included in his return for 1921?

The profit on the entire transaction should be reported by A as income for 1921. If the contract is canceled and the \$2,500 is forfeited that amount is taxable income to A.

41. A and B are operating a farm in partnership and for that purpose sell the personal property at public sale. A buys the most

of the property, in which he already owns a half interest. Must an income tax be paid by the partnership on the total amount of the sale in view of the fact that A already owned a half interest in the property?

For the purpose of ascertaining the gain or loss from the sale of property the partnership should report the difference between the cost of the property or its fair market value as of March 1, 1913, if acquired prior thereto, and the sale price. The fact that one of the partners purchased the property from the partnership would not affect the profit or loss to be reported by the partnership on Form 1065. Under the Revenue Act of 1918 partnerships as such are not subject to income or profits tax.

42. Two neighbors own farms and wish to exchange, without any money consideration except the land traded, it simply being a matter of location suiting each party better. Would this be considered a sale by each party, subject to profits based on 1913 values?

Yes. Such transaction is considered a sale by each party and the basis for computing the profit on each sale is the cost of the farm or the fair market value as of March 1, 1913, if acquired prior thereto. Proper adjustment should be made for any depreciation sustained on buildings which are on the farms, and the cost of any improvements.

43. A and B each owned an 80-acre farm. A wanted to buy a 67-acre farm which was adjoining the 80 acres owned by B so they traded one 80 for the other 80 and neither party received any cash consideration, having made an even trade. Should this trade be included in the returns of either A or B, and if so, how should it be computed?

In the exchange of properties having the same market value, gain or loss is realized by each owner to the amount of the difference between the fair market value at the time of the exchange of the property received and the cost or fair market value as of March 1, 1913, if acquired prior thereto, of the property exchanged plus the cost of any permanent improvements and less any depreciation sustained.

44. A exchanges farms with B as follows: A gives farm as first payment of \$40,000, same having been acquired after March 1, 1913, for \$20,000. Possession given on contract to run for five years at which time the balance due which is \$60,000, is paid and deed given. When and how should return be made?

A has made a profit of \$20,000.

B is held to have received cash and property equal to the value of \$100,000 in exchange for his farm and he is required to return as taxable profit for the year in which the exchange was made the excess of the amount received for his farm, over the fair market value of the farm as of March 1, 1913, if acquired prior thereto, or its cost if acquired on or after that date. Proper adjustment must be made for depreciation sustained and also for the cost of any improvements.

45. A farmer sells his farm for \$15,000, received \$10,000 cash and a city property which will not sell for more than \$3,000, that amount being the most offered for it. The fair market value of

the farm on March 1, 1913, was \$15,000, and he acquired it prior to that date. How will he treat this transaction in his report, as a sale for \$13,000, or a sale for \$15,000?

This is in effect a modification of the original contract of sale, by which seller agrees to accept a consideration of \$13,000, instead of the stipulated price of \$15,000. The farmer therefore suffers a loss of \$2,000.

46. In April, 1920, A agreed to sell B his farm for \$10,000, payment in full to be made in June, when B was to receive title and take possession. A died in May. Sale was completed by executor. Should the profit or loss be reported in the return for decedent or the return for the estate?

The executor should account for the profit or loss in the return for the estate covering the period from the date of death to the close of the taxable year.

47. A sells a farm on contract in 1920 for \$25,000, deed and possession to be given March 1, 1921; \$2,000 is received by A during 1920 on this contract as first payment; is this \$2,000 income for 1920 or 1921?

The contract is executory during 1920, hence no part of the \$2,000 is taxable in A's hands for that year if it does not exceed the cost or fair market value as of March 1, 1913, if acquired prior thereto. If the contract is canceled and the \$2,000 is forfeited, that amount is taxable income to the seller. That portion of the \$2,000 representing a profit on the transaction should be reported (with the balance of the profit realized) by A as taxable income for the year 1921.

48. Where two persons own property in undivided interests and wish to divide said property by each taking his own share, would this be considered a sale of property and subject to income tax based on 1913 values?

No.

49. An endowment insurance policy issued by a certain company has no cash value until the end of the third year. If such a policy were issued in the year 1911 (and therefore having no value March 1, 1913), could the insured deduct the premium paid in the years 1911 and 1912 from the amount received from the policy when it matured as an endowment, or must he deduct only the premiums paid since March, 1913?

The aggregate amount of the premiums paid during the lifetime of the policy may be deducted from the amount received from the proceeds when it matured, and the difference between these two amounts represents income to be reported for the year in which the proceeds of the policy are received.

50. A deeds his farm to his son B. The consideration in the deed recites that B shall pay \$5,000 to his brothers and sisters and \$400 per year to the father during his life. Shall this \$400 be considered payment on the purchase price?

The sum of \$5,000 paid to the brothers and sisters and the \$400 paid annually to the father in accordance with the consideration in the deed transferring the title to the farm from the father to the son should be treated as payments on the purchase price of the farm, no portion of which is deductible by the son.

51. An estate, after debts have been paid, goes to the widow. Executor sells property, both real and personal, and after debts are paid widow has about \$2,000 left, total proceeds from property was \$4,400. Does executor have to file income-tax report on said sale for estate, and does widow pay on her \$2,000?

Where an executor sells the property of an estate for more than its value at the death of the decedent, the excess is income to the estate and, if with other income of the estate, the amount equals or exceeds \$1,000, a return should be filed and any tax shown to be due thereby should be paid by the executor. The estate is entitled to an exemption of \$1,000.

The amount of money or the value of the property received by an individual under a will or under the statutes of descent and distribution is exempt from tax. Therefore, the amount received by the widow from the estate of her husband is exempt from tax.

52. A widow acting as administratrix for the estate of her husband was, during the period of administration, forced by circumstances to sell at public auction all stock and implements on the farm. The stock had been raised by the deceased husband. Everything on the place had been appraised by three disinterested appraisers, as required by the law governing the settlement of estates. Would the widow be allowed to deduct from the proceeds of the sale the amount at which the appraisers had valued the stock? Would she not be justified in considering it as capital in place of income?

The profit or loss for purposes of income tax on the sale of property of the estate sold by the administratrix will be the difference between the selling price and the value of the property as of the date of the husband's death, not the value appraised for the purpose of the sale, unless the sale takes place immediately following the death of the husband. The appraised value for the purpose of the Federal-estate tax or the State-inheritance tax may be considered as the value of the property at the date of the death of the husband, for the purpose of determining the profit realized from the sale.

53. Can a farmer deduct the cost of breeding stock from the proceeds of his public sale if he has not taken his depreciation on said breeding stock in previous years?

A farmer is required to report as income the excess of the selling price over the cost of breeding stock, less depreciation sustained thereon, irrespective of whether the depreciation was actually claimed in previous returns.

54. A farmer was awarded \$4,000 damages by the appraisers on account of the passage of a drainage ditch through his farm. The amount being approximately \$100 per acre for the land destroyed. The value of the land was at least \$250 per acre. Since the amount was awarded on the showing that his farm was depreciated in value to the amount of \$4,000, should the amount received be shown as income in the 1920 return; and if so, should credit in the amount be given elsewhere as a "property value depreciation"? May he deduct \$6,000 as damages, the same being the difference between the fair market value and the amount received?

In this case the damage is not limited to the removal of the dirt and the passage of the drainage ditch, but involves damages to the farm as a whole. The profit or loss from the transaction should be reported for the year during which the farm is sold or otherwise disposed of. The basis for the profit or loss is the cost of the farm if acquired subsequent to March 1, 1913, or the fair market value as of that date if acquired prior to March 1, 1913, due allowance being given to permanent improvements and depreciation.

55. What part of a public sale goes in subject to income tax? Must machinery be valued at a depreciated figure in arriving at the taxable income, though depreciation had never been taken?

In the case of property sold at a public sale, the profit to be returned for income tax purposes is the amount by which the selling price plus the amount of any depreciation sustained on the property since March 1, 1913, exceeds the cost of the property (or its fair market value as of Mar. 1, 1913, if it was acquired prior to that date), plus the cost of any permanent improvements made by the seller since March 1, 1913, and not claimed as a deduction by him in any return of income.

In computing the profit on depreciable property, the amount of depreciation sustained since March 1, 1913, must be considered, whether or not such depreciation has been claimed as deduction from gross income in former returns.

56. I sold some shares of bank stock in 1920 for \$5,000. This stock was purchased by me in 1914 for \$3,000. I have paid \$400 interest in past years upon indebtedness incurred in the purchase and carrying of the stock. How much of the \$5,000 received by me must I include in gross income?

The interest paid by you was a deductible expense from gross income in income tax returns for the years in which paid or accrued. You are therefore required to include in gross income of 1920 the entire difference between the cost and the sale price, or \$2,000.

57. If a farmer exchanges produce for merchandise, groceries, etc., is the value of such merchandise to be returned for tax purposes?

Yes; the price placed by the merchant upon the goods exchanged for farm produce is to be included as income in the farmer's return.

58. During the year 1920 \$60 was placed to my credit by banks in which I had money deposited, which amount represented interest upon my deposits. Does this interest, which was not received by me in cash or withdrawn from the bank, constitute a part of my gross income for 1920?

Yes.

59. I purchased a 6 per cent \$100 coupon bond at its face value, plus \$1.50; that is, three months' accrued interest. Three months later I detached a coupon therefrom and collected \$3 interest. Must the entire amount of interest received be returned as income?

No. Report only so much interest as accrued after the date of your purchase. It is the seller's duty to report the balance.

60. Do the pensions and retired pay of ex-officers and men of the United States military and naval forces constitute items of taxable income?

Yes. Allotments, family allowances, compensation, insurance, etc., paid under the provisions of the War Risk Insurance Act of September 2, 1917, as amended, are, however, exempt from taxation.

61. I own stock in a bank which, under a State law, is required to pay the taxes assessed against such stock. How is this matter to be handled for income-tax purposes?

The proportionate part of the entire amount of taxes so paid by the bank, which is properly chargeable against the number of shares held by you, should be reported, for additional tax purposes, in your personal return as a dividend, and then claimed as a deduction under the heading of "Taxes."

62. Are amounts placed to the credit of a shareholder in a building and loan association subject to income tax?

Yes, if credited and made available to the shareholder.

63. Where service is rendered for a stipulated price, wage, or salary, and paid with something other than money, shall consideration be given the transaction for income-tax purposes?

Where services are paid for with something other than money, the fair market value of the thing taken in payment is the amount to be included as income. If the services were rendered at a stipulated price, in the absence of evidence to the contrary, such price will be presumed to be the fair value of the compensation received.

64. I market my dairy products through a cooperative association and during the year 1920 I received \$300 in dividends from the association. Am I required to include these dividends in my gross income, and are they exempt from normal tax the same as dividends received upon my shares of bank stock?

All dividends from cooperative associations must be included in gross income. They are not exempt from normal tax for the reason that the association itself is not taxed upon its earnings. The dividends simply represent additional amounts accruing to you upon sales through the association.

65. In rendering my 1915 return I claimed a deduction to cover a debt I then believed to be absolutely worthless. In 1920, the debtor has discharged part of his obligations. How should I treat this payment for income-tax purposes?

Consider it as an item of income and include this amount under "Gross income" in your 1920 return.

66. I had cattle, which I raised and which were worth \$500, killed by lightning. The cattle were insured and I received \$500 insurance money. Must this be included in income?

Yes. For income-tax purposes the receipt is the equivalent of a sale. It constitutes income to you.

67. Are there any items of income, other than those above suggested, which should be included in gross income?

Income from every source not wholly exempt from income tax (see answer to question No. 22) must be included. These include income from salaries and wages, rents, interest on

notes, mortgages, etc.; also income from trustees and partnerships, royalties from mines, oil and gas wells, dividends on stocks, etc.

DEDUCTIONS FROM GROSS INCOME.

68. What deductions are allowed from gross income in arriving at net income?

The Revenue Act of 1918 allows the following deductions from gross income in ascertaining net income:

(1) All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.

(2) All interest paid or accrued within the taxable year on indebtedness (except on indebtedness incurred or continued to purchase or carry obligations or securities the interest upon which is wholly exempt from taxation).

(3) Taxes paid or accrued within the taxable year except Federal income, war profits, and excess profits taxes and taxes assessed against local benefits of a kind tending to increase the value of the property assessed.

(4) Losses sustained during the taxable year and not compensated for by insurance or otherwise if incurred in trade or business.

(5) Losses sustained during the taxable year and not compensated for by insurance or otherwise, if incurred in any transaction entered into for profit, though not connected with the trade or business.

(6) Losses sustained during the taxable year on property not connected with the trade or business if arising from fires, storms, shipwrecks, or other casualty, or from theft, and if not compensated for by insurance or otherwise.

(7) Debts ascertained to be worthless and charged off within the taxable year.

(8) A reasonable allowance for the exhaustion, wear, and tear of property used in the trade or business, including a reasonable allowance for obsolescence.

(9) In the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion and for depreciation of improvements according to the peculiar conditions in each case, based upon costs, including cost of development not otherwise deducted.

(10) Contributions or gifts made within the taxable year, to corporations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, or to the special fund for vocational rehabilitation, authorized by section 7 of the Vocational Rehabilitation Act, to an amount not in excess of 15 per cent of the taxpayer's net income as computed without the benefit of this paragraph.

69. What items are not deductible from gross income?

Section 215 of the act provides: That in computing net income no deduction shall in any case be allowed in respect of—

- (a) Personal, living, or family expense;
- (b) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;
- (c) Any amount expended in restoring property or in making good the exhaustion thereof for which an allowance is or has been made; or
- (d) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy.

ORDINARY AND NECESSARY EXPENSES.

70. What ordinary and necessary expenses are deductible?

All amounts actually paid for labor in preparing land for a crop, and the cultivation, harvesting, and marketing of the crop; the cost of the seed and fertilizer used; the amounts expended for labor used in caring for live stock and the cost of the feed purchased; the amounts paid in making repairs to farm buildings, but not the dwelling house; repairs to fences, farm machinery, etc.; the cost of material and farm tools which are used up in the course of a year or so, such as pitchforks, spades, and similar tools, but not including farm implements, machinery, wagons, and other vehicles which are regarded as capital investments; and the amount of rent paid for a farm may also be claimed. If books are kept upon an accrual basis, such expenses are deductible for the year or years in which they accrued.

Amounts paid as the purchase price of an automobile, even though used wholly or partly in the business, are not deductible because such amounts represent capital investments. A reasonable allowance for depreciation may be claimed, based upon a portion of the cost in the ratio that the use of the automobile for business purposes bears to its use for pleasure or for personal and family convenience.

71. Are any payments for permanent improvements to my farm deductible?

No; they are not expenses; they are investments of capital.

72. I purchased in 1920 a mowing machine and cultivator, at a cost of \$150, and small hand tools, at a cost of \$50. Can these amounts be deducted from gross income?

The cost of the hand tools may be deducted as an ordinary expense. The purchase price of the cultivator and mowing machine constitutes investment. They have an estimated life of more than one year, and payment for them should be considered capital expenditures. A reasonable amount for depreciation of the machines may be deducted from gross income.

73. Can payments of premiums on insurance policies for insurance against fire, hail, tornado, or windstorm be deducted?

The cost of insurance of crops and of all farm buildings except the house in which the owner lives is deductible.

74. Can the cost of gasoline, repairs, and upkeep of an automobile or other vehicle used partly for business purposes and partly for pleasure be deducted?

If the automobile is used one-half of the time or one-third of the time for business purposes, the same fractional part of the cost of repairs, etc., may be deducted as a necessary expense. No deduction may be made if the automobile is used solely for the pleasure or personal convenience of the taxpayer or his family.

75. Are the items of expense incurred by me during the calendar year in connection with a farm which I lease to another on a cash or crop-share rental basis, such as repairs to fences, farm buildings, etc., allowable as deductions?

Yes; deductible for the year in which paid if your books are kept on a cash, receipts and disbursements basis. If your books are kept on an accrual basis these expenses are deductible in the year in which they accrued.

76. A tenant, under the terms of a lease, is obliged to pay a certain cash rental and all taxes assessed against the property and keep it insured. May he claim as a business expense the aggregate amount of rental, taxes, and insurance premiums paid?

Yes, if the property is used by the tenant for business or trade purposes.

77. I own stock in a corporation which in 1920, assessed each of its stockholders \$50 on each share held. Can the amount paid by me be claimed as a deduction?

No. Assessments made by a corporation on its capital stock are regarded as further investments of capital and do not constitute an allowable deduction in the return of the individual.

78. Can the value of a crop paid to the landlord by the tenant be deducted as an expense by the tenant?

No. It is not a part of the expenses paid by him. He may deduct all amounts paid by him in raising the crop.

79. I employ a man to assist me in operating my farm and a woman to assist about the house. Is the compensation paid to each allowable as a deduction?

Unquestionably, as to the amount paid to the male employee, but a line must be drawn as to the amount paid to the female employee. If her time is employed entirely in taking care of milk and cream produced for sale, in the production of butter, cheese, etc., the care of milk cans and churns, or, if a separate table is maintained for laborers employed on the farm and her services are used entirely in the preparation and serving of the meals furnished the laborers and in caring for their rooms, the compensation paid her constitutes an allowable deduction. If, however, she is employed to assist in caring for the farmer's own household, no deduction can be claimed.

80. If I employ a minor son or daughter to assist me in my business or trade and I pay a salary or wage for such assistance, may I claim the amount as a deduction?

No. If, however, the son or daughter has attained his or her majority or has been emancipated, the amount of compensation paid for his or her services may be so claimed. (See question No. 8.)

81. In purchasing fertilizers I gave notes in payment which I had not paid at the close of the year. Should the cost of the fertilizers be deducted in the year in which I gave the notes or in the year in which I paid them?

Payment by a note is the equivalent of a payment in cash. Therefore, the cost of the fertilizers should be deducted from income in the year in which the notes were given.

82. I pay dues to a county social club. Are these payments deductible?

No; such dues are a personal expense rather than a business expense.

83. In certain States fruit growers, ranchers, and farmers are shareholders in irrigation companies, which are mutual in character, and they are often assessed, in proportion to their holdings of stock, for sufficient amounts to make repairs to the irrigation system, cleaning out pipes, laterals, etc. Can such assessments be claimed as deductions under the head of business expenses?

Yes. Where the purpose of the assessment is merely to raise funds to keep the irrigation system in usable condition and not to make extensions or betterments, the amount assessed against each shareholder may be so claimed.

84. I purchased a thrashing machine at an auction. Is the amount I paid a legal deduction?

No; it is an investment of capital.

85. Can the cost of digging irrigation ditches be deducted as an expense?

No; because it is a capital expenditure. The cost of repairing such ditches may be deducted.

86. I go to New York every year for the purpose of arranging for the sale of my orange crop. May I deduct the expenses of my trip?

The amount expended by you for railroad fare may be claimed as a deduction. The amount expended by you for meals and lodging in an amount in excess of any expenditures ordinarily required for such purposes when at home may also be claimed as a deduction.

87. The average farm has at least a fair set of improvements. Buildings require new roofs and other repairs. Pumps, windmills, tanks, and troughs wear out. Fences must be repaired. All these and other expenses not thought of, make a big item of expense on the farm. What is a fair way to estimate this depreciation when listing the income from farming for income tax?

Depreciation on farm buildings and equipment depends upon the useful life of the property used in the business. See answer to question number 105. It is to be understood, however, that the cost of placing new roofs on buildings, and

the cost of pumps, windmills, tanks, etc., including the cost of their installation, constitute capital expenditures and the amount thereof may be made the subject of depreciation charges the same as the cost of the original items.

Cost of repairs of articles that do not prolong the life more than a period of one year may be deducted from gross income as a business expense.

Repairs in the nature of replacements, to the extent that they arrest deterioration and appreciably prolong the life of the property, should be charged against the depreciation reserve.

88. A man sold an option on several town lots. The lots were to be paid for as sold by option holder. It later developed that the option holder contemplated erecting undesirable buildings on the lots, and to prevent this from being done the owner returned the amount paid for the option and in addition paid \$400 for its release. Is this \$400 a deductible item of expense or capital investment?

The \$400 is a capital investment, and should be treated as additional cost of the lots.

INTEREST.

89. Can all interest paid or accrued within taxable year on indebtedness be deducted?

Yes; except on indebtedness incurred or continued to purchase or carry securities (like municipal or county bonds), the income from which is wholly exempt from tax.

TAXES.

90. Can all Federal and local taxes be deducted?

Yes; with the exception of United States income, excess and war profits taxes, inheritance or legacy taxes, and assessments against local benefits of a kind tending to increase the value of the property assessed.

91. Am I not entitled to deduct the income tax which I paid to the collector for the taxable year 1919?

No.

92. A taxpayer's fiscal year ends January 31, 1921; is it proper to charge against expense local taxes accrued for 1920, payable in 1921, although taxes for 1919, payable in 1920, were charged against the 1920 business?

The Revenue Act of 1918 provides that in computing the net income there shall be allowed as a deduction "taxes paid or accrued within the taxable year imposed * * * by the authority of any State or Territory or any county, school district, municipality, or other taxing subdivision of any State or Territory, not including those assessed against local benefits of a kind tending to increase the value of the property assessed." Section 200, however, provides that the term "Paid or accrued" is construed according to the method of accounting upon the basis of which the net income is computed under section 212, and article 23 thereunder, of Regulations

45, which provides that the accounts of a taxpayer may be kept on either a receipts or accrual basis and that deductions shall be taken accordingly.

If, therefore, the books of a taxpayer are kept on the cash receipts and disbursements basis, taxes accrued in 1920 but not payable until 1921 can not be taken as a deduction until actually paid in 1921. If, however, the books are kept on the accrual basis the taxes may be taken as a deduction in 1920 when accrued, even though not payable until 1921.

LOSSES.

93. My wheat crop was ruined by hail. I had no insurance. May I deduct the value of the crop as a loss?

No. The value of the crop has never entered into gross income. The cost of raising the crop is deductible as a necessary expense.

94. How am I to determine what amount of loss, resulting from a sale of property, is allowable as a deduction?

The same method of computation should be followed as is outlined in the answer to the 32d question. If the result is a loss instead of a gain, that loss may be claimed as a deduction.

95. Suppose I buy a farm, which is run down, with the intention of making it a profit-paying property—that is, I intend to operate it for profit and not for recreation or pleasure. To do this I am obliged to expend large amounts for labor in plowing and cultivating the land, for fertilizer, lime, etc., and for several years the expenses will greatly exceed the gross receipts. Can the excess of expenses over receipts for each year be claimed as a loss?

It is held that all such necessary expenses as contemplated by the income-tax law of cultivating, operating, or managing a farm on a basis embodying the recognized principles of commercial farming, for the purpose of gain or profit and not for recreation or pleasure, may be claimed as deductions in returns of income, even though these expenses exceed the income from the farm and the result is a continued loss, provided the farm is continued to be operated on a strictly commercial basis.

96. Can a deduction be permitted on account of the total destruction of an orchard by frost, and what would be the proper method of ascertaining the loss deductible?

Yes. The amount to be claimed as a loss is the actual cost of the trees destroyed plus the amount of expenses incurred, but not deducted for tax purposes, in caring for the orchard up to the time it reached the productive stage, less any depreciation sustained.

97. I own a tract of timber which was partially destroyed by fire during 1919. Is this loss allowable as a deduction?

The actual amount of capital invested in standing timber, if acquired on or after March 1, 1913, and later destroyed by fire, may be claimed as a deduction if not compensated for by insurance or otherwise. If the timber was acquired prior to March 1, 1913, its fair market price or value as of that date

may be claimed. To illustrate the method to be employed in computing the amount of loss allowable as a deduction, the following is submitted: A tract of land was acquired prior to March 1, 1913, and the estimated amount of timber standing on that tract on that date was 1,000,000 feet, board measure, the fair market price or value per 1,000 feet established by the current prices prevailing in the locality of the tract in question as of March 1, 1913, being \$4. During the year 1919 400,000 feet of this timber was destroyed by fire. In this case \$1,600 is the amount which may be claimed as a deduction.

98. If cattle or other live stock are raised on a farm which I own or operate, and are then lost through disease, may I claim their value at the time of death as an allowable deduction?

No. If, however, the stock which died were purchased for any purpose and the cost has not been claimed in a previous return as a deduction, that cost, less any insurance which may be received, may be claimed as a deduction. In determining the cost of stock for the purpose of ascertaining the deductible loss there shall be taken into account only the purchase price, and not the cost of any feed, pasturage, or care which has been deducted as an expense of operation. If gross income is ascertained by inventories, no deduction can be made for live stock or products lost during the year, whether purchased for resale or produced on the farm, as such losses will be reflected in the inventory by reducing the amount of live stock or products on hand at the close of the year.

99. I purchased \$5,000 Liberty bonds in May, 1918, paying \$5,000 for same. The market price of these bonds was only \$4,800 on December 31, 1919. Am I entitled to deduct a loss of \$200 on these securities? I am not a recognized dealer in securities.

No. The securities have not been sold, and no loss has been sustained. No loss can be deducted until securities are disposed of and a loss actually is sustained.

DEBTS ASCERTAINED TO BE WORTHLESS.

100. What conditions are necessary in order that a worthless debt may be claimed as a deduction?

It must be (a) a bona fide debt, (b) definitely ascertained to be worthless and uncollectible during the year for which the deduction is claimed, and (c) if books are kept it must be charged off within the year for which the deduction is claimed and no longer considered an asset or carried as such on the books. An account merely written down or a debt recognized as worthless prior to the beginning of the taxable year is not deductible.

101. In 1920 a corporation or a firm to which I had loaned money became bankrupt. Can this debt be considered absolutely worthless and claimed as a deduction for 1920?

Yes; if it is definitely known that nothing can be collected from the debtor itself or any person connected with it.

102. Is it absolutely necessary that the debtor corporation or firm mentioned in the above inquiry be declared a bankrupt and its receiver discharged before I can claim a deduction on account of the debt in question?

No. If the debtor corporation has no assets whatsoever available for application to the debt in question, and it is definitely known that nothing whatsoever can be collected from the debtor itself or any person connected with it, a creditor need not go to the expense of instituting bankruptcy proceedings in order to establish his right to claim the worthless debt as a deduction.

103. "A" indorses a note for "B." The latter has since departed for parts unknown and the note became due in 1920, and "A" was required to make good his indorsement. Can he now claim as a deduction the amount paid by him to the creditor? Yes. If he has no knowledge of "B's" present whereabouts and has good reason to believe that he is possessed of no assets and that it is his intention never to make payment of it, the amount so paid by "A" may be considered a bad debt due him from "B."

DEPRECIATION.

104. What is depreciation?

Depreciation is a lessening in value of farm buildings, machinery, etc., employed in the business arising from wear, tear, or obsolescence.

105. At what rates may depreciation be claimed, and under what conditions?

The annual allowance for depreciation should be based upon the life of the property; that is, the cost of the property or the value of the same when acquired, if received by gift or bequests, or its fair market price or value as of March 1, 1913, if acquired prior thereto, should be ratably spread over its life. For instance, the rate of depreciation to be deducted on buildings used for business purposes the probable life of which is 50 years would be 2 per cent. The probable life means of course the number of years the property would be usable in business if ordinary repairs are made from the date of acquisition or in case of property acquired prior to March 1, 1913, the number of years the property would be usable from March 1, 1913. In the case of property acquired by gift or bequest, the "cost" of such property for depreciation purposes is the appraised value at the time the property was acquired. If property in respect of which depreciation is claimed was acquired prior to March 1, 1913, the fair market value as of that date will be assumed to be, in the absence of proof to the contrary, the cost of the property, less depreciation up to that date.

In claiming depreciation the following fundamental principles must be taken into consideration:

(a) Only such depreciation as results from exhaustion, wear, and tear of property, arising out of its use or employment in business or trade, can be claimed. Depreciation in the value of a home or any article of property, such as automobiles, used for personal pleasure or convenience, can not be claimed; the property must be used for the purpose of producing income.

(b) Depreciation in the value of land, whether improved or unimproved, due to ordinary erosion, exhaustion, or any other cause, can not be claimed.

(c) Where, in the course of years, the owner of property has claimed its full cost as depreciation in his income-tax returns, no further claim will be allowed.

(d) The value to be cared for by depreciation is the actual amount invested in the property and not the value which may be arbitrarily or otherwise fixed.

106. What is the usual depreciation allowed on general feed mill machinery, mill building, electric light plant, and frame building combined?

As the rate at which depreciation may be claimed is dependent to a greater or less extent upon local conditions, the use to which the property is put and its probable life under normal business conditions, no rates applicable to all classes of property have been established, and no specific rates can be given at which depreciation may be claimed with respect to any particular property.

107. What is the depreciation on gasoline engine?

The rate of depreciation which may be claimed on a gasoline engine depends upon the useful life of the engine in the business. See answer to question No. 105.

108. Am I entitled to deduct under the heading of "Depreciation" shrinkage in the value of cattle, work horses, and mules purchased or raised on my farm?

Depreciation may be claimed with respect to live stock purchased for breeding or draft purposes on account of reduction in value due to increase of age or other causes.

109. In 1914 I inherited a farm which I rent. May I claim any amount on account of wear and tear on the buildings which are depreciating in value?

You are entitled to claim a reasonable allowance for depreciation, based on the fair value of the buildings at the time acquired and the estimated life after such acquirement.

GIFTS.

110. How am I to determine to what extent contributions or gifts made to corporations, organized and operated exclusively for religious, charitable, scientific, or educational purposes, or for prevention of cruelty to children or animals, or to the special fund for vocational rehabilitation, may be claimed as a deduction?

You should first ascertain what your net income would be were you not entitled to a deduction on account of such contributions or gifts, and then if the aggregate of such contributions or gifts made during the year to such corporations does not exceed 15 per cent of your taxable net income so computed their aggregate amount may be entered in the space provided therefor under "Contributions" on a personal return form. If such aggregate amount exceeds 15 per cent of your taxable net income so computed, the excess can not be claimed.

For example: Your total net income without deduction for contributions amounts to \$20,000. During the year you have contributed to the National Red Cross \$1,000; to the Young Men's Christian Association \$1,000; toward the construction of a new church \$1,000; and to the associated charities of your home city \$500; a total of \$3,500. Fifteen per cent of your total net income amounts to \$3,000; therefore this latter amount may be claimed as a deduction and the balance of your contributions and gifts may not be claimed.

In claiming a deduction on account of such contributions or gifts there should be shown on the return of income (a) the name and address of each organization to which a contribution or gift was made and (b) the date and amount of each such contribution or gift.

Where a gift is other than money, the basis for calculation of the amount of the gift shall be the cost of the property, if acquired subsequent to February 28, 1913, or its fair market value as of March 1, 1913, if acquired prior thereto, after deducting from such cost or value the amount, if any, which has been or which should have been set aside and deducted in the current year and previous years from gross income on account of depreciation, and not paid out in making good the depreciation sustained.

CREDITS.

111. I understand that a part of the net income is not liable to the normal tax. To what credits am I entitled in arriving at the net income liable to the normal tax?

(a) The amounts received as dividends from a corporation which is taxable by the United States upon any portion of its net income.

(b) The amount received as interest upon obligations of the United States which is included in gross income.

(c) The personal exemptions referred to in answer to question No. 3. (For the purpose of imposing the surtax the taxpayer's net income is entitled to none of these credits.)

RETURNS OF INFORMATION.

112. Are returns of information required of farmers?

Section 256 of the Revenue Act of 1913 provides in part that all individuals, corporations, and partnerships, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, and employers, making payment to another individual or partnership of interest, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits * * * of \$1,000 or more in any taxable year * * * shall render a true and accurate return to the Commissioner, under such regulations and in such form and manner and to such extent as may be prescribed by him with the approval of the Secretary, setting forth the amount of such gains, profits, and income, and the name and address of the recipients of such payment.

113. Upon what forms shall I make returns of information and with whom shall I file such returns?

Returns of information should be filed on Form 1099 (revised) and should be filed with the Commissioner of Internal Revenue on or before March 15 of each year, accompanied by a letter of transmittal, under oath, on Form 1096 (revised).

114. I pay an annual rent exceeding \$1,000 to an agent who refuses to disclose the name of the landlord. Should I make a return of information?

No. The return in that case should be made by the agent.

115. Where a person receives a cash compensation for services rendered, and in addition thereto commissions, living expenses, or other allowances, is the aggregate amount of cash, plus the value to such person of the allowances, to be returned?

Yes. A return is required in each case where the cash compensation, plus the value of the allowances, equals or exceeds \$1,000 for the taxable year.

PAYMENT, ABATEMENT, AND REFUND OF TAX ASSESSED.

116. To whom is an assessment of income tax to be paid?

To the collector of internal revenue with whom your return was filed.

117. When does payment of income tax assessed against an individual on a calendar year return become due and payable?

The first installment shall be paid at the time fixed by law for filing the return, and the second installment shall be paid on the 15th day of the third month, the third installment on the 15th day of the sixth month, and the fourth installment on the 15th day of the ninth month, after the time fixed by law for filing the return.

The total tax may be paid at the time of filing the return, or if not so paid, one installment may be paid and the balance may be paid in installments, or in full, on or prior to any subsequent installment date referred to above. Failure to pay any installment on the date fixed by law makes the taxpayer liable for the payment of the balance of tax due upon notice and demand by the collector.

118. May the income tax due from a taxpayer be paid in a single payment instead of in installments?

Yes. Section 250 of the act provides that the tax may, at the option of the taxpayer, be paid in a single payment, in which case the total amount is to be paid on or before the time fixed by law for filing the return; or, where an extension of time for filing the return has been granted, on or before the expiration of the period of such extension.

119. What recourse has a taxpayer when he feels that he has been assessed an income tax in excess of his true tax liability?

He may pay the tax under protest and file claim for refund, or he may exercise his right to file with the collector of internal revenue for his district a claim for abatement, executed on Form 47, copies of which may be obtained from the collector. The filing of a bona fide claim prior to the due date of the tax acts as a stay to the collection of the 5 per cent

penalty for delinquency in payment, provided in case of rejection of the claim, the tax due is paid within 10 days from the date of notice of such rejection. However, in case of rejection interest at the rate of one-half of 1 per cent per month will run from the date the amount was due until paid.

It should be understood, however, that the filing of a claim for abatement of tax alleged to have been erroneously assessed does not operate as a suspension of the collection of the tax. If the collector feels that the suspension of collection will jeopardize the interests of the Government, he may collect the tax and leave the taxpayer to his remedy of filing a claim for refund.

120. In 1919 I paid \$50 income tax in excess of my true tax liability for the year 1918. Can this excess payment be applied in payment of a later assessment of tax?

Yes; the excess payment is to be credited against any income, war-profits, or excess-profits taxes, or installment thereof, due from the taxpayer at the time of the discovery of the overpayment for the prior year, and any balance of such excess is to be refunded to the taxpayer. It will be necessary, however, to file a claim for such credit with your collector on Form 47-A.

121. Will any information contained in my personal return be disclosed to another?

No. The law specifically provides that any information relative to an individual's income and deductions obtained from his personal return or otherwise, in connection with the income tax, shall be inviolably confidential, and it is unlawful for any employee of the United States to divulge or make known such information in any manner whatsoever to any person except the proper officers and employees of the Treasury Department, or to the proper officers of a court for use in a trial of any case to which both the United States and the person rendering the return are parties; and any offense against this provision of law will be held to be a misdemeanor and be punishable by a fine not exceeding \$1,000, or imprisonment not exceeding one year, or both, at the discretion of the court, and dismissal from the service of the Government.

122. If my attorney requests a copy of my return or any information relative thereto, will his request be granted?

No; unless the return was rendered by him for and in your behalf, or he submits an authorization, personally signed by you, permitting the copy or information to be given to him.

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